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CENTRAL INTELLIGENCE AGENCY

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State Department review completed

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GENERAL

1. Comment on Soviet participation in the Japanese peace treaty conference:

The Soviet decision to attend the Japanese peace conference is an indication of concern over Western plans to proceed without the USSR if necessary. It is also a sign of Soviet inability to hinder the conclusion of the treaty and to prevent widespread adherence to it. The conference will offer the USSR the opportunity to exploit objections to the joint US-UK sponsored draft held mainly by Far Eastern nations over questions such as reparations, rearmament and Chinese representation.

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2. Egyptian Foreign Minister planning abrogation of treaty in October:

The Egyptian Foreign Minister has informed the US Ambassador in Cairo that he does not intend to abrogate the Anglo-Egyptian Treaty during the present parliamentary session but to wait proba-

bly until October. The British Ambassador has been instructed to intimate to the Egyptian authorities -- in case there is danger of an early explosion -- that progress is being made on the study of a "new approach" to the defense of the Middle East.

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Comment: This delay in abrogating the treaty beyond the August date that the Foreign Minister had previously mentioned, would seem to reflect the influence of the King, who does not want to have the negotiations with the British broken off. The "new approach" being studied by Britain is probably the Middle East theater command proposal now under discussion in the Standing Group of NATO. This proposal envisages a multilateral defense setup for the Eastern Mediterranean under British command.

Britain evidently hopes that if it offers to include Egypt in a regional defense pact, Egypt may agree to foreign participation in Canal defenses.

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EASTERN EUROPE

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5. Trieste compromise suggested:

Tito has informed US Ambassador Allen that the the Yugoslav Government is most anxious to settle the Trieste question because it remains the outstanding problem in Yugoslav relations with the West, and its settlement would materially strengthen the common front against Cominform aggression.

Tito offered three alternative solutions for settlement of the Trieste issue: (a) the maintenance of the status quo (interpreted by Allen to mean the division of Trieste along present zonal boundaries rather than a continuation of the present military regime); (b) the establishment of a Zone B autonomous regime with provisions for minority rights; or (c) a territorial exchange by which Yugoslavia would relinquish the coastal district of Capodistria in exchange for "some Slovene villages in Zone A".

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Comment: The chief obstacle to a compromise settlement appears to be disposition of the predominantly Italian coastal cities in Zone B, which Tito's suggestion of giving up Capodistria does not cover.

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WESTERN EUROPE

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7. French critical of Acheson proposals for German rearmament:

The French Foreign Office has tentative reservations toward the speedy solution for the problem of German rearmament proposed in the recent personal letter from Secretary of State Acheson to Foreign Minister Schuman. While the French admit that simultaneous settlement of both political and military aspects of the problem is logical and desirable, they believe that unconditional political equality cannot be granted to the Bonn Government lest the Germans subsequently "find a way to welsh" on making a defense contribution.

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The French Foreign Office thinks also that public and political opinion is not yet prepared for such an "extreme" idea as German membership in NATO, and it fears that the proposal to discuss this point in September may arouse French opposition to other features of German rearmament.

Comment: The basic French premise is that the political arrangement with the Federal Republic should not take the form of inter-governmental agreements, but rather of a contract between the supreme Allied authority in Germany and the Bonn Government. The recent German unilateral action increasing the export price on Ruhr coal, as well as the stiff bargaining position generally adopted by the Germans, is making the French Government increasingly wary of further concessions to Germany.

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8. New treason law would restrict Allied information in Germany:

The US High Commission in Frankfurt points out that the new German treason law is much broader than similar laws in other countries and, although aimed at the Communists, might be interpreted to the detriment of the Allies. Enforcement of this law might prevent the volunteering of information to the Occupation Powers, especially to Allied intelligence agencies, and might permit the Allies to have access to information only in reserved fields.

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The Germans ignored an order to submit the law for the consideration of the Allied High Commission; they have, however, obeyed a further order to refrain from signing the law until consultations can take place.

The High Commission is reluctant to disapprove the law, as this would mean delaying anti-Communist legislation. Instead, it is considering passage of a High Commission law to give full protection to communications and relations between the Germans and the Allies.

Comment: The Germans want, as much as possible, to have the full range of powers of an independent nation when the new contractual arrangements go into effect. They intend to hold down special Allied occupation rights to a minimum, and are particularly concerned to maintain exclusive control over "state secrets."

25X1A 9. Bumper wheat crop relieves pressure on Spanish Government:

The Minister of Agriculture recently announced that Spain's 1951 crop prospects are the best in 50 years. Informed government sources say that this year's estimated total of four million

metric tons, an increase of 30 per cent over the 1950 harvest figure, should fill Spain's current rations requirements.

Comment: The record wheat harvest should ease public pressure on the government for improved rations of this staple food. The Spanish Government's frantic efforts in May and June to purchase foreign wheat reflected a fear that a reduction in the already meager wheat ration might become necessary, which would further aggravate the grave internal situation then existing in Spain. By paying premium prices for this year's surplus wheat and by continuing to press for wheat credits under the US Export-Import Bank loans agreement, the Madrid government may be able to collect sufficient stocks to increase and improve the wheat ration without raising the quotas of forced deliveries.

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